

Message Text

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ACTION NEA-10

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FM AMEMBASSY NEW DELHI

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INFO AMCONSUL BOMBAY

AMCONSUL MADRAS

AMCONSUL CALCUTTA

UNCLAS NEW DELHI 0652

E.O. 11652: N/A

TAGS: EFIN, IN

SUBJECT: RBI MOVES AGAIN TO TIGHTEN CREDIT

REF: (A) NEW DELHI 12568 (B) NEW DELHI 16196

1. THE RESERVE BANK OF INDIA (RBI), IN AN EFFORT TO DAMPEN THE OVERHEATING OF THE ECONOMY THROUGH LIBERAL AVAILABILITY OF CREDIT, HAS PUT FURTHER CONTROLS ON THE COMMERCIAL BANKS.

2. THE TWO MAIN STEPS ANNOUNCED BY THE RBI ARE THE IMPOUNDING OF 10 PERCENT OF INCREMENTAL DEPOSITS BETWEEN JANUARY 14 AND APRIL 14, 1977, WHICH ON A ROUGH ESTIMATE WOULD BE ABOUT RS.800 MILLION(DOLS94 MILLION). THIS IS IN ADDITON TO THE IMPOUNDING OF RS. 3,000 MILLION THROUGH THE RAISING OF THE CASH RESERVE RATIO TWICE FROM 4 TO 5 TO 6 PERCENT DURING SEPTEMBER/NOVEMBER.

3. SECOND, AN INCREASE OF 10 PERCENT ON MARGINS ON ALL TYPES OF ADVANCES AGAINST INVENTORIES WOULD COVER RAW MATERIALS, GOODS IN PROCESS AND FINISHED GOOD IN RESPECT OF EXISTING ACCOUNTS. THIS BECOMES UNCLASSIFIED

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EFFECTIVE IMMEDIATELY. THE HIKE IN MARGINS, WHEREVER APPLICABLE, HOWEVER, MUST BE IMPLEMENTED IN SUCH A MANNER THAT THE OVERALL MARGIN DOES NOT EXCEED 60 PERCENT.

4. THE INCREASED MARGIN WILL NOT BE APPLICABLE (1) TO ADVANCE AGAIN -ST COMMODITIES COVERED BY SELECTIVE CREDIT CONTROL DIRECTIVES WHERE THE MARGINS ARE ALREADY HIGH AND

COMMODITIES SPECIFICALLY EXEMPTED FROM THE MINIMUM MARGIN REQUIREMENT, (2) ADVANCES TO SMALL SCALE INDUSTRIES, (3) ALL CATEGORIES OF ADVANCES EXEMPTED FROM THE APPLICATION OF THE MINIMUM LENDING RATE OF 12.5 PERCENT, (4) EXPORT CREDIT, AND (5) SICK UNITS AS PER THE ACCEPTED DEFINITION.

5. RESERVE BANK GOVERNOR PURI HAS ASKED THE COMMERCIAL BANKS TO IMMEDIATELY UNDERTAKE A SCRUTINY (AT HEAD OFFICE) OF ALL BIG BORROWAL ACCOUNTS WITH LIMITS EXCEEDING RS. 500 THOUSAND AND WHERE THE ACTUAL WITHDRAWALS AT PRESENT HAVE ALREADY REACHED 60 PERCENT OR MORE OF THE SANCTIONED LIMITS. SUFFICIENT CARE, HE EMPHASIZED, WILL HAVE TO BE TAKEN TO INSURE THAT THE WITHDRAWALS, WHICH HAVE ALREADY TAKEN PLACE, AS WELL AS INTENDED WITHDRAWALS IN THE IMMEDIATE FUTURE ARE RELATED TO CONCRETE PRODUCTION PROGRAMS.

6. MR. PURI HAS DRAWN PARTICULAR ATTENTION OF THE BANKS TO THE MANAGEMENT STRATEGY TO BE ADOPTED IN BRINGING ABOUT AN ADEQUATE TURN AROUND OF FUNDS. HE SAID WHAT THE BANKING SYSTEM SHOULD REALLY DO IS TO INSURE THAT THERE IS A RETURN FLOW OF CREDIT ALREADY EXTENDED IN CERTAIN DIRECTIONS AND WHICH COULD BE RECYCLED FOR MEETING THE NEW SEASONAL DEMANDS. HE ALSO STRESSED THAT THE BANKS SHOULD EVOLVE A BETTER PLANNING AND CONTROL SYSTEM TO ALIGN CREDIT EXPANSION WITH OUTPUT INCREASES. SCHNEIDER

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